

TOWNSHIP OF ISABELLA
Isabella County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2008

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|--------------------------------|--|--------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name Township of Isabella | County Isabella |
| Fiscal Year End March 31, 2008 | Opinion Date April 16, 2008 | Date Audit Report Submitted to State April 23, 2008 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

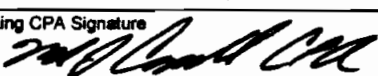
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

2 Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|-------------------------------------|--|------------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | N/A | |
| Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C. | | Telephone Number 989-894-1040 | |
| Street Address 512 N. Lincoln, Suite 100, P.O. Box 686 | | City Bay City | State MI |
| | | Zip 48707 | |
| Authorizing CPA Signature  | Printed Name Mark J. Campbell | | License Number 1101007803 |

TOWNSHIP OF ISABELLA
Isabella County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

April 16, 2008

To the Township Board
Township of Isabella
Isabella County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Isabella, Isabella County, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Isabella's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Isabella, Isabella County, Michigan as of March 31, 2008, and the respective changes in financial position thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF ISABELLA
Isabella County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2008

The Management's Discussion and Analysis report of the Township of Isabella covers the Township's financial performance during the year ended March 31, 2008.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2008, totaled \$806,286.68 for governmental activities. Overall total capital assets remained approximately the same.

Overall revenues were \$647,514.60 from governmental activities. Governmental activities had a \$18,448.13 decrease in net assets.

Taxable value was \$54,657,368.00.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

This annual report consists of the basic financial statements and required supplementary information.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole. The statement of net assets includes all the Township's assets and liabilities. The statement of activities records all the current year revenues and expenses regardless of when received or paid.

All of the activities of the Township are reported as governmental activities. These include the General Fund.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

CONDENSED FINANCIAL INFORMATION
March 31, 2008

| | <u>Total</u> <u>Governmental</u> <u>Activities</u> <u>2008</u> |
|----------------------------|---|
| Current Assets | 746 715 |
| Capital Assets | <u>59 572</u> |
| Total Assets | <u>806 287</u> |
| Current Liabilities | - |
| Non-current Liabilities | <u>-</u> |
| Total Liabilities | <u>-</u> |
| Net Assets: | |
| Invested in Capital Assets | 746 715 |
| Unrestricted | <u>59 572</u> |
| Total Net Assets | <u><u>806 287</u></u> |

| | <u>Total</u> <u>Governmental</u> <u>Activities</u> <u>2008</u> |
|---------------------------------------|---|
| Program Revenues: | |
| Fees and charges for services | 426 274 |
| Operating Grants and Contributions | - |
| General Revenues: | |
| Property taxes | 52 274 |
| State Revenue Sharing | 125 653 |
| Interest | 24 138 |
| Miscellaneous | <u>19 177</u> |
| Total Revenues | <u>647 516</u> |
| Program Expenses: | |
| General Government and Administration | 66 391 |
| Public Safety | 41 346 |
| Public Works | 529 867 |
| Recreation and Culture | 12 285 |
| Other | <u>16 075</u> |
| Total Expenses | <u>665 964</u> |
| Increase (Decrease) in Net Assets | (18 448) |
| Net Assets, April 1 | <u>824 735</u> |
| Net Assets, March 31 | <u><u>806 287</u></u> |

TOWNSHIP OF ISABELLA
Isabella County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2008

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Our cash position in governmental activities remains stable. This year we had road work done which was funded by money received from the Saginaw Chippewa Indian Tribe.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for all of the Township's governmental services. The most significant are roads which incurred expenses of \$528,745.02.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$0 in capital assets. The Township's governmental activities paid \$0 in principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very uncertain and it represents a significant portion of our income. We continue to grow in taxable values with little demand for infrastructure, except good roads.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is intended to provide our taxpayers, creditors and investors with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report, please contact the Township at 3929 E. Rosebush Rd. Rosebush, Michigan 48878.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2008

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS: | |
| CURRENT ASSETS: | |
| Cash in bank | <u>746 714 45</u> |
| Total Current Assets | <u>746 714 45</u> |
| NONCURRENT ASSETS: | |
| Capital Assets | 165 919 29 |
| Less: Accumulated Depreciation | <u>(106 347 06)</u> |
| Net Capital assets | <u>59 572 23</u> |
| TOTAL ASSETS | <u>806 286 68</u> |
| LIABILITIES AND NET ASSETS: | |
| LIABILITIES: | |
| CURRENT LIABILITIES: | |
| Accounts payable | <u>-</u> |
| Total Current Liabilities | <u>-</u> |
| NONCURRENT LIABILITIES | <u>-</u> |
| Total Noncurrent Liabilities | <u>-</u> |
| Total Liabilities | <u>-</u> |
| NET ASSETS: | |
| Invested in Capital Assets, Net of Related Debt | 59 572 23 |
| Unrestricted | <u>746 714 45</u> |
| Total Net Assets | <u>806 286 68</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>806 286 68</u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2008

| | <u>Expenses</u> | <u>Program Revenue</u> | <u>Governmental Activities</u> |
|--------------------------------------|-------------------|---------------------------------|--|
| | | <u>Charges for Services</u> | <u>Net (Expense) Revenue and Changes in Net Assets</u> |
| FUNCTIONS/PROGRAMS | | | |
| Governmental Activities: | | | |
| Legislative | 6 756 16 | - | (6 756 16) |
| General government | 59 634 60 | 4 960 00 | (54 674 60) |
| Public safety | 41 345 49 | - | (41 345 49) |
| Public works | 529 867 19 | 421 313 53 | (108 553 66) |
| Culture and recreation | 12 284 92 | - | (12 284 92) |
| Other | 16 074 37 | - | (16 074 37) |
| Total Governmental Activities | <u>665 962 73</u> | <u>426 273 53</u> | <u>(239 689 20)</u> |
| General Revenues: | | | |
| Property taxes | | | 52 273 60 |
| State revenue sharing | | | 125 652 72 |
| Interest | | | 24 137 88 |
| Miscellaneous | | | <u>19 176 87</u> |
| Total General Revenues | | | <u>221 241 07</u> |
| Change in net assets | | | <u>(18 448 13)</u> |
| Net assets, beginning of year | | | <u>824 734 81</u> |
| Net Assets, End of Year | | | <u>806 286 68</u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
March 31, 2008

| | <u>Total (General)</u> |
|------------------------------------|----------------------------|
| <u>Assets</u> | |
| Cash in bank | 746 111 55 |
| Due from other funds | <u>602 90</u> |
| Total Assets | <u>746 714 45</u> |
| <u>Liabilities and Fund Equity</u> | |
| Liabilities: | |
| Total liabilities | <u>-</u> |
| Fund equity: | |
| Fund balances: | |
| Unreserved: | |
| Undesignated | <u>746 714 45</u> |
| Total fund equity | <u>746 714 45</u> |
| Total Liabilities and Fund Equity | <u>746 714 45</u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
March 31, 2008

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS 746 714 45

Amounts reported for governmental activities in the statement of
net assets are different because –

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the governmental funds balance sheet:

| | |
|--------------------------|---------------------|
| Capital assets at cost | 165 919 29 |
| Accumulated depreciation | <u>(106 347 06)</u> |

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES 806 286 68

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended March 31, 2008

| | <u>Total (General)</u> |
|--|----------------------------|
| Revenues: | |
| Property taxes | 52 273 60 |
| State revenue sharing | 125 652 72 |
| Charges for services | 4 960 00 |
| Interest | 24 137 88 |
| Miscellaneous | <u>440 490 40</u> |
| Total revenues | <u>647 514 60</u> |
| Expenditures: | |
| Legislative: | |
| Township Board | 6 756 16 |
| General government: | |
| Supervisor | 18 435 59 |
| Elections | 1 083 11 |
| Clerk | 11 688 25 |
| Board of Review | 3 753 20 |
| Treasurer | 14 483 11 |
| Building and grounds | 3 307 19 |
| Cemetery | 6 099 15 |
| Public safety: | |
| Public safety | 41 345 49 |
| Public works: | |
| Highways and streets | 528 745 02 |
| Street lighting | 1 122 17 |
| Culture and recreation: | |
| Parks | 8 767 42 |
| Other functions: | |
| Insurance | 5 518 00 |
| Retirement | 9 808 84 |
| Payroll taxes | <u>747 53</u> |
| Total expenditures | <u>661 660 23</u> |
| Excess (deficiency) of revenues over expenditures | <u>(14 145 63)</u> |
| Fund balance, April 1 | <u>760 860 08</u> |
| Fund Balance, March 31 | <u><u>746 714 45</u></u> |

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended March 31, 2008

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (14 145 63)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

| | |
|----------------------|------------|
| Depreciation Expense | (4 302 50) |
| Capital Outlay | <u>-</u> |

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (18 448 13)

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2008

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Isabella, Isabella County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Isabella. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Joint Venture – Isabella Northeast Fire District

The Township is a member of the Isabella Northeast Fire District, which is a joint venture of the village of Rosebush and the Township's of Isabella, Vernon, and Denver. Each unit appoints a representative to serve on the five-member Isabella Northeast Fire District Board, along with a member selected at large. The Fire District Board is responsible for adopting the annual budget. The costs of operation of the Fire District are shared among the units based on their portion of the total State Equalized Valuation of the Fire District. Annual contributions to the Fire District are made based upon the budget.

The Fire District is audited and reported separate from the Township.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2007 tax roll millage rate was .9565 mills, and the taxable value was \$54,657,368.00.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$3,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | |
|---------------------------------------|-------------|
| Buildings, additions and improvements | 20-80 years |
| Equipment | 5-20 years |

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2008

Note 2 – Budgets and Budgetary Accounting (continued)

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated two financial institutions for the deposit of Township funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

| | <u>Carrying Amounts</u> |
|---|-----------------------------|
| Total Deposits | <u>746 714 45</u> |
| Amounts in the bank balances are without considering deposits in transit or uncleared checks. | |
| | <u>Bank Balances</u> |
| Insured (FDIC) | 198 943 14 |
| Uninsured and Uncollateralized | <u>554 512 48</u> |
| Total Deposits | <u>753 455 62</u> |

The Township of Isabella did not have any investments as of March 31, 2008.

TOWNSHIP OF ISABELLA
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2008

Note 3 – Deposits and Investments (continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Township manages its exposure to interest rate risk is by participating in financial institution pooled funds and in mutual funds which hold diverse investments that are authorized by law for direct investments.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The financial institution pooled funds and the mutual funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Township contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Township's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Township's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investment, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

| | <u>Balance 4/1/07</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 3/31/08</u> |
|---------------------------------|---------------------------|-------------------|------------------|----------------------------|
| <u>Governmental Activities:</u> | | | | |
| Land | 12 000 00 | - | - | 12 000 00 |
| Buildings and improvements | 138 184 29 | - | - | 138 184 29 |
| Equipment | <u>15 735 00</u> | <u>-</u> | <u>-</u> | <u>15 735 00</u> |
| Total | 165 919 29 | - | - | 165 919 29 |
| Accumulated Depreciation | <u>(102 044 56)</u> | <u>(4 302 50)</u> | <u>-</u> | <u>(106 347 06)</u> |
| Net Capital Assets | <u>63 874 73</u> | <u>(4 302 50)</u> | <u>-</u> | <u>59 572 23</u> |

TOWNSHIP OF ISABELLA
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2008

Note 5 – Pension Plan

The Township has a retirement plan that covers all elected officers. Under the plan the Township pays all of the cost which for the year ended March 31, 2008, was \$9,808.84.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Isabella does not issue building permits. Building permits are issued by the County of Isabella.

Note 9 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Fund</u> | <u>Interfund Payable</u> |
|-------------|---------------------------------|------------------------|------------------------------|
| General | <u>602 90</u> | Current Tax Collection | <u>602 90</u> |
| Total | <u>602 90</u> | Total | <u>602 90</u> |

TOWNSHIP OF ISABELLA
Isabella County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2008

| | Original Budget | Final Budget | Actual | Variance with Final Budget Over (Under) |
|--|---------------------|---------------------|--------------------|--|
| Revenues: | | | | |
| Property taxes | 54 000 00 | 54 000 00 | 52 273 60 | (1 726 40) |
| State revenue sharing | 121 000 00 | 121 000 00 | 125 652 72 | 4 652 72 |
| Charges for services | 2 000 00 | 2 000 00 | 4 960 00 | 2 960 00 |
| Interest | 300 00 | 300 00 | 24 137 88 | 23 837 88 |
| Rent | 1 500 00 | 1 500 00 | - | (1 500 00) |
| Miscellaneous | 15 100 00 | 532 661 00 | 440 490 40 | (92 170 60) |
| Total revenues | 193 900 00 | 711 461 00 | 647 514 60 | (63 946 40) |
| Expenditures: | | | | |
| Legislative: | | | | |
| Township Board | 11 600 00 | 10 600 00 | 6 756 16 | (3 843 84) |
| General government: | | | | |
| Supervisor | 20 200 00 | 20 200 00 | 18 435 59 | (1 764 41) |
| Elections | 4 500 00 | 4 500 00 | 1 083 11 | (3 416 89) |
| Clerk | 12 300 00 | 12 300 00 | 11 688 25 | (611 75) |
| Board of Review | 2 700 00 | 4 000 00 | 3 753 20 | (246 80) |
| Treasurer | 16 900 00 | 16 900 00 | 14 483 11 | (2 416 89) |
| Building and grounds | 5 600 00 | 5 600 00 | 3 307 19 | (2 292 81) |
| Cemetery | 8 400 00 | 8 400 00 | 6 099 15 | (2 300 85) |
| Public safety: | | | | |
| Public safety | 42 000 00 | 42 000 00 | 41 345 49 | (654 51) |
| Public works: | | | | |
| Highways and streets | 520 000 00 | 908 361 00 | 528 745 02 | (379 615 98) |
| Street lighting | 1 200 00 | 1 200 00 | 1 122 17 | (77 83) |
| Culture and recreation: | | | | |
| Parks | 10 300 00 | 10 300 00 | 8 767 42 | (1 532 58) |
| Other functions: | | | | |
| Insurance | 6 100 00 | 6 100 00 | 5 518 00 | (582 00) |
| Retirement | 13 000 00 | 13 000 00 | 9 808 84 | (3 191 16) |
| Payroll taxes | 800 00 | 800 00 | 747 53 | (52 47) |
| Contingency | 5 000 00 | 4 700 00 | - | (4 700 00) |
| Capital outlay | 12 500 00 | 12 500 00 | - | (12 500 00) |
| Total expenditures | 693 100 00 | 1 081 461 00 | 661 660 23 | (419 800 77) |
| Excess (deficiency) of revenues over expenditures | (499 200 00) | (370 000 00) | (14 145 63) | 355 854 37 |
| Fund balance, April 1 | 499 200 00 | 370 000 00 | 760 860 08 | 390 860 08 |
| Fund Balance, March 31 | - | - | 746 714 45 | 746 714 45 |

TOWNSHIP OF ISABELLA
Isabella County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2008

| | |
|-------------------------------|------------------|
| Township Board: | |
| Wages | 5 400 00 |
| Dues | 948 89 |
| Miscellaneous | <u>407 27</u> |
| | <u>6 756 16</u> |
| Supervisor: | |
| Salary | 7 350 00 |
| Supplies | 365 07 |
| Assessing contracted services | 10 150 00 |
| Miscellaneous | <u>570 52</u> |
| | <u>18 435 59</u> |
| Elections: | |
| Wages | 1 010 00 |
| Miscellaneous | <u>73 11</u> |
| | <u>1 083 11</u> |
| Clerk: | |
| Salary | 10 450 00 |
| Deputy | 100 00 |
| Supplies | 131 59 |
| Education and training | 736 83 |
| Miscellaneous | <u>269 83</u> |
| | <u>11 688 25</u> |
| Board of Review: | |
| Wages | 2 880 00 |
| Miscellaneous | <u>873 20</u> |
| | <u>3 753 20</u> |
| Treasurer: | |
| Salary | 12 350 00 |
| Salary – deputy | 300 00 |
| Supplies | 1 110 01 |
| Miscellaneous | <u>723 10</u> |
| | <u>14 483 11</u> |
| Building and grounds: | |
| Wages | 600 00 |
| Supplies | 177 21 |
| Repairs and maintenance | 362 32 |
| Utilities | <u>2 167 66</u> |
| | <u>3 307 19</u> |
| Cemetery: | |
| Wages | 550 00 |
| Contracted services | 3 500 00 |
| Repairs and maintenance | 715 87 |
| Miscellaneous | <u>1 333 28</u> |
| | <u>6 099 15</u> |
| Public safety: | |
| Contracted services | <u>41 345 49</u> |

TOWNSHIP OF ISABELLA
Isabella County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2008

| | |
|-------------------------|--------------------------|
| Highways and streets: | |
| Contracted services | <u>528 745 02</u> |
| Street lighting | <u>1 122 17</u> |
| Park: | |
| Wages | 900 00 |
| Repairs and maintenance | 1 247 33 |
| Utilities | 2 402 17 |
| Contracted services | 3 500 00 |
| Miscellaneous | <u>717 92</u> |
| | <u>8 767 42</u> |
| Insurance | <u>5 518 00</u> |
| Retirement | <u>9 808 84</u> |
| Payroll taxes | <u>747 53</u> |
| Total Expenditures | <u><u>661 660 23</u></u> |

TOWNSHIP OF ISABELLA
Isabella County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended March 31, 2008

| | <u>Balance</u> <u>4/1/07</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>3/31/08</u> |
|---------------------------|---------------------------------|----------------------------|----------------------------|----------------------------------|
| <u>Assets</u> | | | | |
| Cash in bank | <u>202 24</u> | <u>1 707 277 47</u> | <u>1 706 876 81</u> | <u>602 90</u> |
| Total Assets | <u><u>202 24</u></u> | <u><u>1 707 277 47</u></u> | <u><u>1 706 876 81</u></u> | <u><u>602 90</u></u> |
| <u>Liabilities</u> | | | | |
| Due to General Fund | 202 24 | 52 674 26 | 52 273 60 | 602 90 |
| Due to other taxing units | <u>-</u> | <u>1 654 603 21</u> | <u>1 654 603 21</u> | <u>-</u> |
| Total Liabilities | <u><u>202 24</u></u> | <u><u>1 707 277 47</u></u> | <u><u>1 706 876 81</u></u> | <u><u>602 90</u></u> |

TOWNSHIP OF ISABELLA
Isabella County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year Ended March 31, 2008

| | |
|---|---------------------|
| Cash in bank -- beginning of year | <u>202 24</u> |
| Cash receipts: | |
| Current property tax | 1 707 232 58 |
| Interest | <u>44 89</u> |
| Total cash receipts | <u>1 707 277 47</u> |
| Total beginning balance and cash receipts | <u>1 707 479 71</u> |
| Cash disbursements: | |
| Township General Fund | 52 273 60 |
| Isabella County | 952 935 48 |
| Chippewa River District Library | 74 942 15 |
| Mt. Pleasant Public Schools | 471 445 31 |
| I.C.T.C. | 49 185 85 |
| Beal City Public Schools | 98 737 03 |
| Refunds | <u>7 357 39</u> |
| Total cash disbursements | <u>1 706 876 81</u> |
| Cash in Bank -- End of Year | <u>602 90</u> |

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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KENNETH P. KUSTERER, CPA

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P.O. BOX 686
BAY CITY, MICHIGAN 48707

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FAX (989) 894-5494

AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

April 16, 2008

To the Township Board
Township of Isabella
Isabella County, Michigan

We have audited the financial statements of the Township of Isabella for the year ended March 31, 2008. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Isabella in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Isabella
Isabella County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

The Township's system of internal control is affected by the size of the staff that it can employ.

The ultimate accounting system would include enough employees to completely segregate all aspects of each transaction. Different departments or individuals would handle: transaction authorization, transaction execution, asset handling, recording of transactions, review of transactions and subsequent control of assets.

The Township cannot enact a complete segregation of all aspects of each transaction due to the nature of local units of government. The "cost to benefit" relationship also would not justify a complete segregation of all duties.

We recommend that the Township Board Members understand these circumstances when performing their oversight responsibilities.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2008.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants